

DERBY CITY COUNCIL - SUBMISSION TO THE LYONS INQUIRY

1 - Council Tax Revaluation and Reform

a) Revaluation

Revaluation is essential if the integrity of the council tax is to be restored. The delay between the original 1991 revaluation and the timing of a future revaluation will now be great as the gap between the last rating revaluation (1973) and the abolition of the rates. We acknowledge that a simple revaluation without wider council tax reform will create geographic anomalies, which could be difficult to manage, but that is not in itself a reason to delay long overdue change to a system that has become progressively more inadequate in the absence of either revaluation or other major changes since 1993.

b) Reform – Bands and Ratios

In previous submissions, the Council has supported measures to make the council tax progressive by the incorporation of additional bands at the top and bottom of the scale and, critically, by a sharper weighting of ratios (ie. greater than 3:1) between the top and bottom bands.

We are concerned that the Lyons Inquiry has already reported that additional bands tends not to improve the progressiveness of the council tax, on the grounds that some wealthy people live in lower-banded properties and some less affluent people live in higher-banded properties. This appears to be a simplification and to contradict the substantial research that NPI has carried out in this field. The general trend in property ownership is that wealthier people live in more expensive properties, and exceptions to this trend should be dealt with through the system of benefit and/or discounts and possibly regional banding. More bands would help as part of a package of reform, and should not be dismissed just because that change would be inadequate without further reform.

In particular, the need to widen the ratio between top and bottom bands is critical, if an equitable taxation system is to be created *within* authorities. The current ratio between the maximum Band H and minimum Band A of 3:1 needs to increase substantially. Although the Council would also prefer to see more bands to enable a greater differentiation between properties, the band ratio is the more important issue.

In order to achieve equity *between* authorities we accept that regional banding might be a necessary compromise if a sharp differentiation of band ratios is to be seen in any one authority or within a region. The NPI work for the balance of funding review pointed out that regional banding for the purpose of distributing council tax receipts could avoid a very sharp overall increase on London and the South-East while still achieving a steeper differentiation between high and low bands.

We do not, though, accept the argument that equity of council tax can be judged solely on the basis of its incidence relative to income, which was made throughout the Balance of Funding review without significant challenge. There is a case for supporting a reformed council tax as a tax on property in its own right, for the reasons explained in the following section. In addition, there is a reasonably close correlation between personal wealth and property values, with most personal wealth being in the form of property. Accumulated wealth is particularly high in the South East particularly because of high property values there and a high incidence of owner occupation. Given the spread of owner-occupation in recent decades there would be a much stronger case in 2007 for a direct relationship between property values and local taxes than was ever the case under the rating system, which did establish such a link.

c) Reform - Discounts

The drift to smaller size households is as much responsible for pressures on housing and land use as the general increase in population. In this situation, there is a case for taxes that increase more directly in relation to the size of property than in relation to the degree of occupancy. This calls into question the continuation of the single person property discount, as without this there would be a greater financial incentive not to live in under-occupied property. However, as smaller households tend to have lower incomes, it would be essential to combine any reduction or elimination of the single person discount with a widening of the 3:1 band ratio. As a housing authority concerned with the lack of availability of affordable housing, we would support a fiscal policy that encouraged better use of a limited property resource.

Eliminating the discount altogether would also have administrative advantages in terms of reducing the need for enforcement action to confirm the validity of discounts claimed.

The argument for abolishing the 25% single person discount is less clear in the case of pensioners. This is because:

- Pensioners tend to have relatively low incomes even though they often live in larger property
- A significant proportion of pensioners do not claim the council tax benefit they are entitled to and the problem created by low benefit take up would be worse but for the 25% discount
- Many pensioners are single due to the death of a spouse and have lived in their home for many years - it is less reasonable to expect pensioners to move to a new smaller home in those circumstances

In addition, council tax is partially discredited because the scale of the tax is seen as bearing particularly heavily on pensioners. If reforms to council tax led to a perception that it was fairer to pensioners, one of the main political barriers to placing more reliance on council tax to fund better local services would be removed.

The case can therefore be made for a 'single pensioners discount' of greater than 25%, funded by a reduction in the single persons discount for non-

pensioners, on grounds of both equity and political pragmatism. A discount might also apply to pensioner couples at a rate lower than the single pensioner discount.

Any support for a specific 'pensioners discount' should be qualified. A pensioners discount which replaced the single person discount would undoubtedly shift Government funding in support of council tax towards often affluent resort/retirement areas and away from urban centres with concentrations of single people below retirement age (including Derby). Furthermore, affluent pensioners would benefit without some form of income restriction.

The solution suggested is that eligibility for a pensioners discount should still be accompanied by an upper limit on income, beyond which the discount would be subject to withdrawal or taper, although the substantial majority of pensioners should receive the discount. There would have to be an administratively practical way of doing this. A suggestion is that the point at which the discount was withdrawn could coincide with the upper income limit on the additional age-related personal allowance in the income tax system, and that any pensioner seeking a council tax discount would be required to authorise a local authority to confirm their eligibility for the discount with the HMRC. In this way the eligibility for discount could be determined by simple cross-referencing of records between local authorities and the HMRC. In addition, this would avoid the stigma of the discount being seen as some means-tested benefit.

d) Reform – Benefit and Emergency Homelessness

The ability of the City Council to recover housing and council tax benefit subsidy relating to the emergency provision of temporary accommodation to homeless people is proving to be increasingly unworkable on both administrative and financial grounds. Clearly, when a homeless person presents themselves to the Council our priority in such situations is the provision of accommodation. However, due to the itinerant nature of such persons, it is often not possible for the Council to reclaim benefit until a much later stage (if at all). We therefore believe that the housing benefit system is not an appropriate instrument for dealing with this type of funding, and that some sort of specific grant would be a better approach. We attach further detail at Appendix 1.

2 - Equalisation of Local Revenues

We note that in a presentation made to the CIPFA conference in June, you spoke of the need to balance resource equalisation with financial incentives. This appears to indicate that in future new taxes might be established with the aim of encouraging local government to operate in central government-approved ways and which will not be equalised. This is of grave concern.

We accept that for charges (as opposed to taxation) there are some circumstances where equalisation should not apply:

- Charges are easier to justify if local residents accept that they are getting something back in return. For example, congestion charges would be much harder to sell if receipts were pooled nationally rather than being reinvested in local transport improvements.
- Charges may address particular local problems and therefore require reinvestment in the same area – congestion charging is the example again, in that any urban traffic congestion charge requires reinvestment in a local urban solution.
- Full retention of local revenues does enhance the revenue base and therefore extends local choices in decision-making. If inequalities in funding/needs can be addressed through core local government taxation, and specific local charges are reasonably equally spread and would not add to those inequalities, then the principle should be that further equalisation is not necessary.

However, if these conditions are not substantively met, then equalisation should apply as the norm, to charges. Equalisation should also apply to core revenues - the core council tax and non-domestic rate – whether or non it is relocalised.

For example, if a tourism tax were to be put forward as a substantive new source of local revenues, there must be some equalisation of proceeds among local authorities. Otherwise revenues would represent a windfall to a small number of local authority areas dependent on tourism, with most local authorities receiving little or no revenue. Furthermore, it is likely that Derby residents would pay those taxes, rather than the residents living permanently in the (generally desirable) tourist destination.

There are parallels between a tourism tax and the council tax charged on second homes. Under the Local Government Act 2003, local authorities were given the right to reduce the 50% council tax discount on both second homes and long term empty properties (over 6 months). Derby makes use of both provisions and they are consistent with the Council's wider housing policy. Proceeds from the discretionary second homes tax are largely concentrated in tourist destinations but are negligible in Derby. However, unlike the additional tax on empty properties, the additional tax on second homes is fully retained by each local authority and not subject to equalisation. This discriminates against areas with weaker housing markets in favour of local authorities with large numbers of second homes, particularly in tourist areas. The Lyons Inquiry should address this issue, which might provide a catalyst for the Government to act.

Another possible new tax is the proposed Planning Gain Supplement on which the Government is currently consulting on as a replacement to current s106 arrangements. As the Government moves to further facilitate the raising of levies from developers, this could become a significant source of local revenue. Following the Barker Report, Derby City Council recognises that there is a need to incentivise the process of granting planning approval for house building. Authorities should be allowed to benefit from the process of granting approval.

However, the incidence of such a tax will clearly vary markedly. Milton Keynes and other very fast growing areas (not just those in the South East) will be able to place a significant premium on developers, far greater than the premium in regeneration areas with much less buoyant property markets. Milton Keynes is cited as a fast growing area that has already brought in what is seen as a 'roof tax' quoted as generating £20m under existing s106 powers. The Government's position appears to be that a windfall tax on planning gain can go beyond any tax necessary to meet the direct costs of local authorities in responding to that development. It is, in effect, a means of equalising a windfall from planning gain between private developers and public purse, rather than enable developers to retain that windfall entirely.

Given that the relative costs of addressing additional needs will not equate to the level of potential revenues, and the capacity to raise the tax is very uneven, we therefore believe that the Planning Gain Supplement should be subject to significant equalisation, with a portion of any approved large scale development being added to an authority's tax base (which in any case is now supposed to be forward-looking) such that local government as a whole shares in some of the benefit. It is also important, given the need to alleviate pressures on council tax, that such equalised revenues are retained fully within local authorities.

3 - Non-Domestic Rates

There remains widespread support across local government for the relocalisation of NNDR as being the simplest means of altering the balance between local and national funding, and making local government less dependent on national funding decisions. Like many other authorities, the City Council supports the LGA's stance on the relocalisation of the non-domestic rate. We support the Inquiry's view that local authorities can indirectly contribute to the national economy through their own work on economic development, and strongly believe that relocalisation of the business rate would further incentivise local authorities to encourage economic development.

However, we are mindful that, because of the uneven distribution of business wealth throughout the country, there would remain a clear need to equalise a relocalised non-domestic rate. The non-domestic rate is currently subject to equalisation under pooling and was also equalised when localised. This would ensure that the more deprived authorities were not immediately placed in a position of having to increase the business rates in their areas in order to maintain resource-parity with the authorities in more affluent areas.

It is clear in the light of experience that alternatives to the relocalisation of business rates so far announced, such as the Local Authority Business Growth Incentives scheme and Business Improvement Districts, are incapable of fully realising the goal of establishing a healthy dialogue and working relationship between a local authority and its business community. The attached Appendix 2 on LABGI sets out detailed evidence as to why it is so

inadequate when considered as an alternative to a fully relocalised business rate, drawing on Derby's experience to date.